

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 516**

February 12, 2009

**SUMMARY OF BILL:** Reduces the state sales tax rate on food and food ingredients from 5.5 percent to 5.0 percent.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact - \$45,825,000**

**Decrease Local Revenue – \$2,205,800**

**Other Fiscal Impact – Beginning in FY10-11, there will be additional forgone revenue to state and local governments due to the natural growth of taxable food sales. As taxable food sales grow each year, forgone sales tax revenue will increase. Assuming taxable food sales grow by 4.5 percent from FY09-10 to FY10-11, total forgone sales tax revenue for FY10-11 would be approximately \$2,161,400. Of this amount, the state would forgo approximately \$2,062,100, and local governments would forgo approximately \$99,300 as a result of state-shared sales tax apportionment. These forgone amounts will increase each successive year by the rate at which taxable food sales grow in the future.**

**Assumptions:**

- “Food and food ingredients” means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value.
- “Food and food ingredients” does not include alcoholic beverages, tobacco, candy, dietary supplements, or prepared food.
- According to the Department of Revenue, state sales tax revenue collected from the sale of food and food ingredients in Tennessee for FY07-08 was approximately \$504,600,000.

- Food and food ingredients were taxed at two different rates during FY07-08. The tax rate from July 1, 2007 through December 31, 2007 was six percent. On January 1, 2008 the tax rate changed to 5.5 percent as a result of Public Chapter 600 from the 2007 Public Acts. Therefore, the average tax rate for FY07-08 was 5.75 percent.
- The average tax rate calculated for FY07-08 (5.75 percent) is used to estimate total taxable food sales for FY07-08.
- Total taxable food sales for FY07-08 are estimated to be \$8,775,652,200 ( $\$504,600,000 / 5.75\% = \$8,775,652,174$ ).
- Based on recent one-year price increases as measured by the Consumer Price Index for Food (Source: U.S. Department of Labor: Bureau of Labor Statistics), food prices are estimated to increase by at least 4.5 percent in each of the next two years.
- Taxable food sales are estimated to increase by an additional 0.25 percent in FY09-10 due to the elasticity factor resulting from the 0.50 percent tax rate reduction as proposed.
- Taxable sales for FY09-10 (adjusted for two years of growth) are estimated to be \$9,606,158,000 ( $(\$8,775,652,200 \times 104.5\%) \times 104.75\% = \$9,606,157,985$ ).
- The decrease of state sales tax revenue is estimated to be \$48,030,800 ( $\$9,606,158,000 \times 0.5\% = \$48,030,790$ ) in FY09-10.
- The estimated \$48,030,800 in state sales tax revenue would be apportioned as follows in FY09-10: \$13,940,700 to the General Fund, \$31,266,600 to the Education Fund, \$2,205,800 to local governments, \$176,500 to the Department of Revenue, and \$441,200 to the Sinking Fund.
- The net decrease to state revenue for FY09-10 is estimated to be \$45,825,000 ( $\$48,030,800 - \$2,205,800 \text{ local share} = \$45,825,000$ ).
- Local governments are not held harmless from the loss of state-shared sales tax revenue (\$2,205,800 in FY09-10).
- There will be additional and increasing amounts of forgone sales tax revenue in subsequent years due to the natural growth of taxable food sales.

## **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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